

CITY OF DAKOTA CITY

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

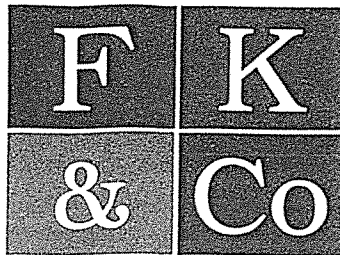
**FOR THE PERIOD
APRIL 1, 2015 THROUGH MARCH 31, 2016**

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City of Dakota City
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Don Faltinson	Mayor	Jan 2018
Justin Kirchhoff	Council Member	Jan 2020
Barbara Nelson	Council Member	Jan 2020
Billy Fort	Council Member	Jan 2020
James Van Horn	Council Member	Jan 2018
Tim Myers	Council Member	Jan 2018
Angelique Berry	City Clerk	Indefinite



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor
and Members of City Council:

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Dakota City for the period April 1, 2015 through March 31, 2016. The City of Dakota City's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2015 Annual Financial Report (AFR) to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

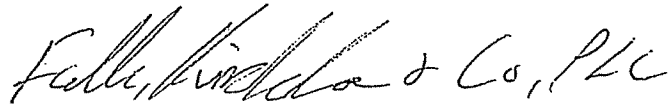
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected tax increment financing (TIF) transactions, including receipts, disbursements and transfers, for compliance and accurate accounting, including compliance with the TIF reporting requirements of Chapter 384.22 of the Code of Iowa.
11. We reviewed the City's TIF debt certification forms filed with the County Auditor, including requests for collection of reduced TIF amounts and to decertify certain TIF obligations, as applicable, for proper support and compliance with Chapter 403.19(6) of the Code of Iowa.
12. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
13. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
14. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
15. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

These agreed upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Had we performed additional procedures, or had we performed an audit of the City of Dakota City, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Dakota City and other parties to whom the City of Dakota City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Dakota City during the course of our agreed-upon procedures. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in cursive script that reads "Faller, Kincheloe & Co, PLC". The signature is written in dark ink and is positioned above the printed name of the firm.

Faller, Kincheloe & Co, PLC
Des Moines, Iowa

July 8, 2016

CITY OF DAKOTA CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

1. Cash – handling, reconciling and recording.
2. Investing – recordkeeping, investing, custody or investments and reconciling earnings.
3. Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.
4. Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.
5. Debt – recordkeeping, compliance and debt payment processing.
6. Payroll – recordkeeping, preparation and distribution.
7. Financial reporting – preparing and reconciling.
8. Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing was not prepared monthly.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or other independent person designated by the City Council should review the reconciliations and monitor delinquent accounts. The reviews should be documented by signing or initialing and dating the reconciliations.

- (C) Official Depositories – The total bank balances exceeded the maximum allowed by the resolution naming official depositories by \$1.2M.

Recommendation – A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

CITY OF DAKOTA CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (D) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City does not receive an image of the back of each cancelled check.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks as required by Chapter 554D.114 of the Code of Iowa.

- (E) Certified Budget – Disbursements during the year ended June 30, 2015 exceeded the amount budgeted in the capital projects and debt service functions prior to the budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

The City’s budget documents did not list one of the City’s long-term debt issues on the budget’s long-term debt schedule filed with the State of Iowa. The listing of the City’s debt on the long-term debt schedule in the budget documents is required by the State of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also the City should establish procedures to review the budget preparation and related documents to ensure accuracy.

- (F) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city, and all expenditures, the current public debt of the City...” The City’s Annual Financial Report reported beginning and ending balances do not agree with the City’s records by \$2.3M.

Recommendation – The City should ensure all amounts included in future Annual Financial Reports are supported by the amounts recorded in the City’s records.

- (G) Annual Urban Renewal Report (AURR) – The AURR was not approved by the City Council prior to being certified to the Iowa Department of Management on or before December 1.

Recommendation – The City should approve the AURR prior to submission to the Iowa Department of Management.

CITY OF DAKOTA CITY

DETAILED RECOMMENDATIONS

For the period April 1, 2015 through March 31, 2016

- (H) Payroll – The City did not prepare any IRS Forms 1099 for the year ended December 31, 2015. We noted that the City should have issued a Form 1099.

Recommendation – Procedures should be established to ensure the City files IRS Forms 1099 when applicable.

- (I) Clerk's Report – A monthly Clerk's report, including a summary of revenues, disbursements and ending balances by fund, is not prepared.

Recommendation – The City should establish procedures to ensure the monthly Clerk's report includes a summary of revenues, disbursements and ending balances by fund. The report should also include a budget vs actual comparison for the year to date disbursements.

- (J) Financial Condition – At March 31, 2016, the City had deficit balances of \$41,484 and \$109,052 in the Debt Service and Capital Projects Funds, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial condition.

- (K) Insurance Property Tax Levy – The City levies a tax to pay for liability insurance coverage. The proceeds of this tax are used to pay all the cost associated with liability insurance coverage. The costs incurred by the Water and Sewer Funds for liability insurance coverage were charged to tax levy instead the Water and Sewer Funds as required by Chapter 384.16(18) of the Code of Iowa.

Recommendation – Cost incurred for liability insurance coverage for the Water and Sewer Funds should be charged to the Water and Sewer Funds as required by Chapter 384.16(18) of the Code of Iowa.